Debt Management Responses during the Pandemic

JULY, 2020
Summary

- Immediate Liquidity and Financing Needs
- Institutional Coordination
- Primary and Secondary Market
- Sound Debt Management Practices
Immediate Liquidity and Financing Needs

Background

• Significantly increased financing requirements that debt managers have to fulfil

• Deterioration in market conditions = increased rollover risk and difficulties in meeting larger foreign debt service payments

• For countries without market financing, access to emergency facilities necessary

• Financing cost impact will vary by type of economy:
  • AEs – higher demand due to safe haven flows may reduce financing costs
  • EMDEs and LICs – lower demand due to risk aversion may increase financing costs
Immediate Liquidity and Financing Needs

What can debt managers do?

• Significant Covid-19 changes are a trigger for revising Debt Management Strategy and Annual Borrowing Plan

• Enhanced market communication and consultation essential

• Step-change in immediate financing needs will necessitate increase in financing where there is liquidity available

• Where possible, debt managers can engage in cash-neutral Liability Management Operations (LMOs) to push out redemptions

• May be a trigger for using cash buffers – but requires careful evaluation
Emergency Facilities

- Rapid Credit Facility (RCF)
- Rapid Financing Instrument (RFI)
- Catastrophe Containment and Relief Trust (CCRT):
  (i) Catastrophe Containment window
  (ii) Post-Catastrophe Relief window
Emergency Facilities (US$ 65bn, over 70 countries)¹

¹As at 23 June, including CCRT.
G20 Debt Service Suspension Initiative (DSSI)

• The initiative is also supported by the Paris Club, Kuwait and the UAE.

• Covers all IDA-eligible and UN Least Developed Country (LDC) countries that are current on their debt service to the IMF and World Bank.

• Commitment to reprofile all principal and interest coming due between May 1 and December 31, 2020 from borrowers that request it.

• Paris Club MoU covers terms and conditions in more detail.

• Commercial creditors are called upon to participate working through the IIF.
Summary

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- **Institutional Coordination**
- Primary and Secondary Market
- Returning to Sound Debt Management Practices
Institutional Coordination

Communication between debt management, monetary, fiscal and regulatory authorities critical

Debt managers may also be required to assume new responsibilities – e.g. where there are government interventions, including guarantee schemes.
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Primary Market

Front Office: Executing Funding Changes

- Borrowing programs will need substantial revision

- **Increased communication and consultation with market participants, including PDs, will be critical**

- Need to align issuance with market demand:
  - Likely rebalancing to shorter-maturity issuance (e.g. T-bills) or use of other instruments, including bilateral loans
  - Increased flexibility in issuance calendar (less pre-commitment or notice)
  - Increased diversity of issuance mechanisms: taps/tenders/syndications/shop windows
Primary Market

Middle and Back Office: Increased Monitoring of Debt Servicing and Investor Base

• Important to step up monitoring of debt servicing – including FX interest payments.

• Time to take any opportunities to improve debt-cash integration given liquidity constraints.

• Improve monitoring of investor base, with a focus on non-resident investors.

• Investor Relations - increased outreach, move to regular production of debt reports/improvements in communications via website – required to maintain and support market access.

• *Important to monitor existing and potential new contingent liabilities and risk transfer to investors.*
Secondary Market

Addressing Market Dislocation

• Debt managers should use existing (and new) market management tools to address market dislocation:
  • Exchanges may be preferred to buy-backs given liquidity pressures.
  • Use and modification of securities lending facilities (less penal, wider eligibility)
  • Cash buffers should be used cautiously, supporting market functioning

• Use of market management tools should be well communicated to market participants, and clearly distinguished from funding operations

• Collaboration with central banks and regulatory authorities critical.
A Brief Recap

• Address immediate liquidity risks
• Coordinate within government
• Consult with external stakeholders
• Revise the Debt Management Strategy and Borrowing Plan
• Use market management tools where possible
• Enhance risk monitoring
• Communicate proactively
• Be responsive and adapt plans as appropriate
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Returning to Sound Debt Management Practices

The New Normal in Debt Management

• Post-crisis there will be a need to unwind interventions that have been a departure from sound practices.

• Debt managers will want to undertake an evaluation of risks that crystalized during the crisis, and assess the adequacy of the debt management response.

• Going forward, debt managers will need to re-assess existing debt management strategies over the medium term, taking into account larger debt portfolios where the cost-risk profile will have altered significantly.